

RURAL WATER DISTRICT NO. 8
SHAWNEE COUNTY, KANSAS

FINANCIAL STATEMENTS
For the years ended December 31, 2011 and 2010

And

INDEPENDENT AUDITORS' REPORT

Long CPA, PA
A Professional Association
Certified Public Accountants

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

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To the Board of Directors
Rural Water District No. 8, Shawnee County, Kansas
Tecumseh, Kansas 66542

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of the business-type activities of Rural Water District No. 8, Shawnee County, Kansas (the District) as of and for the years ended December 31, 2011 and 2010. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America, the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, and the applicable provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

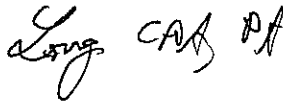
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Governmental Auditing Standards, we have also issued our report dated January 10, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an

Board of Directors
Rural Water District No. 8, Shawnee County, Kansas

audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 3 through 5, is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Long CPA PA". The signature is stylized and cursive.

Long CPA, PA
A Professional Association
Certified Public Accountant

January 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion of the financial performance of Rural Water District No. 8, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2011 and comparative data for the fiscal years ended December 31, 2011 and December 31, 2010. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

The District's net assets decreased by \$ 13,745. This was principally due to the depreciation expense related to the District and the Tri District. Water usage increased.

The District realized a loss from operations of \$(6,643), after recognizing depreciation and amortization expense of \$ 113,490.

Total cash on hand at the end of the year was \$ 1,523,484 which was an increase of \$ 83,814 over the cash on hand on December 31, 2010. The total unrestricted cash on hand on December 31, 2011 was \$ 1,117,194.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

Basic Financial Statements.

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed over the two most recent fiscal

years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Notes to basic financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11 - 23 of this report.

Thirty-five percent of the District's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The unrestricted net assets may be used to meet the District's ongoing obligations to its customers and creditors.

Capital Assets

The District's investment in capital assets for its business-type activities as of December 31, 2011 and 2010 was \$1,710,705 and \$1,809,173, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities, equipment, and investment in contracts with the City of Topeka for water supply for the District.

Additional information on the District's capital assets can be found in Note 11 on pages 20-23 of this report.

Debt Administration

At the end of fiscal year 2011, the District had no bonded debt outstanding.

The statement of revenues, expenses and changes in net assets and the comparison of budget to actual amounts for fiscal year 2011 reflect no significant changes from fiscal year 2010.

Economic Factors and Next Year's Budget and Rates

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of rural Shawnee County.

As a product of an ongoing examination of how the District does its business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process. Significant road improvements are anticipated over the next few years will require some major water line relocation efforts, however most if not all of the costs associated with those improvements should be reimbursable.

Requests for Information

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 3260 SE Tecumseh Rd., Tecumseh, KS 66542, or phone (785) 379-5553.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF NET ASSETS

As of December 31, 2011 and 2010

	ASSETS	
	2011	2010
Current Assets		
Cash and cash equivalents	\$ 316,141	\$ 246,033
Short-term investments	801,053	791,775
Accounts receivable	107,056	93,026
Inventory	28,178	27,505
Prepaid expenses	2,889	3,459
Total current assets	1,255,317	1,161,798
Noncurrent Assets		
Long-term investments	406,290	401,862
Total noncurrent assets	406,290	401,862
Investment in Tri-District	1,560,413	1,606,347
Property, plant, and equipment, net	1,710,705	1,809,173
Total Assets	<u>\$ 4,932,725</u>	<u>\$ 4,979,180</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 84,273	\$ 111,800
Accrued payroll taxes	4,319	5,661
Accrued payroll	19,459	23,300
Total current liabilities	108,051	140,761
Net Assets		
Invested in capital assets	1,710,705	1,809,173
Unrestricted	3,113,969	3,029,246
Total net assets	4,824,674	4,838,419
Total Liabilities and Net Assets	<u>\$ 4,932,725</u>	<u>\$ 4,979,180</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues		
Water sales	\$ 904,709	\$ 769,450
Service charge	301,034	300,626
Tri-District expense reimbursement	27,977	32,190
Miscellaneous	<u>21,484</u>	<u>27,830</u>
Total operating revenues	1,255,204	1,130,096
Cost of water purchased	<u>694,248</u>	<u>635,698</u>
Gross profit	<u>560,956</u>	<u>494,398</u>
Operating Expenses		
Depreciation and amortization	113,490	117,814
Wages	228,456	230,210
Payroll taxes	16,664	17,840
Employee pension and benefits	62,417	56,161
Repairs	59,011	47,674
Line relocation expense	-	(2,510)
Insurance	10,561	10,745
Power and light	4,143	4,752
Vehicle expense	9,289	7,328
Office expense	19,328	18,055
Meter reading	22,218	21,076
Telephone	5,460	5,137
Directors' expense	3,100	2,900
Legal	2,401	1,729
Accounting	4,850	4,750
Engineering	1,450	-
Miscellaneous	<u>4,761</u>	<u>5,676</u>
Total operating expenses	<u>567,599</u>	<u>549,337</u>
Income (loss) from operations	<u>(6,643)</u>	<u>(54,939)</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Non-Operating Revenues (Expense)		
Interest income	14,740	20,949
Gain (loss) on investment in Tri-District	<u>(45,934)</u>	<u>(129,527)</u>
Total non-operating income (expense)	<u>(31,194)</u>	<u>(108,578)</u>
Net Income (loss) Before Contributions	(37,837)	(163,517)
Capital Contributions		
Benefit units sold	19,800	26,900
Contributions in aid of construction	<u>4,292</u>	
Total capital contributions	<u>24,092</u>	<u>26,900</u>
Change in Net Assets	(13,745)	(136,617)
Net Assets - Beginning of Year	<u>4,838,419</u>	<u>4,975,036</u>
Net Assets - End of Year	<u><u>\$ 4,824,674</u></u>	<u><u>\$ 4,838,419</u></u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,219,687	\$ 1,137,831
Miscellaneous cash receipts	21,484	27,830
Cash payments for goods and services	(873,630)	(723,010)
Cash payments to employees for services	<u>(307,537)</u>	<u>(304,211)</u>
Net cash provided by operating activities	60,004	138,440
Cash flows from investing activities		
Interest income	14,740	20,949
Purchase of investments	<u>(4,428)</u>	<u>(216,571)</u>
Net cash provided by investing activities	10,312	(195,622)
Cash flows from capital and related financing activities		
Purchase of capital assets	(24,300)	(109,315)
Proceeds from sale of benefit units	19,800	26,900
Contributions in aid of construction	<u>4,292</u>	<u></u>
Net cash used in capital and related financing activities	<u>(208)</u>	<u>(82,415)</u>
Net increase in cash and cash equivalents	70,108	(139,597)
Cash and cash equivalents, beginning of year	<u>246,033</u>	<u>385,630</u>
Cash and cash equivalents, end of year	<u>\$ 316,141</u>	<u>\$ 246,033</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (6,643)	\$ (54,939)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	113,490	117,814
Changes in assets and liabilities		
Accounts receivable	(14,030)	6,918
Inventory	(673)	794
Prepaid expenses	570	(42)
Accounts payable	(27,527)	69,489
Accrued expenses	<u>(5,183)</u>	<u>(1,594)</u>
Net cash provided by operating activities	<u>\$ 60,004</u>	<u>\$ 138,440</u>

The notes to the financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Organization

Rural Water District No. 8, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Assets or Balance Sheet

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

GASB Statement No. 34 (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Investments

The investments represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

Accounts Receivable

Accounts receivable are carried at original invoice amount less any estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts.

Inventory

The District's inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 113,490 and \$ 117,814 for the years ended December 31, 2011 and 2010, respectively.

Benefit Units

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 2,200.

Aid in Construction

Aid in Construction represents contributions from the members for line extensions.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the District's total investment in capital assets, net of accumulated depreciation and related debt.

Unrestricted net assets – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

Use of Estimates

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (continued)

Deposits (continued)

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011 and 2010.

At December 31, 2011 and 2010, the District's carrying amount of deposits, including certificates of deposit, was \$ 1,523,484 and \$ 1,439,670 respectively, and the bank balance was \$ 1,525,534 and \$ 1,440,859 respectively, of which \$ 351,246 was covered by FDIC insurance. \$ 1,174,288 was collateralized by securities held in safekeeping pledged to the District.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Benefit Units Certificates

During 1991, the District was contracted by Tecumseh Township to improve, upgrade, maintain and assume operations of the Township's water system. The District issued Series A, 1991 Water System Revenue Bonds in the amount of \$355,350 to cover the cost of the project. Those bonds have subsequently been refunded with the Water System Refunding Revenue Bonds, series 1996. As of December 31, 1991, there were 260 benefit users in the affected area. The District offered the patrons two payment alternatives to offset the cost of the project:

- a) An initial charge of \$ 2,367, or
- b) A monthly fee of \$ 19 over the life of the bonds.

The charges to the patrons include \$ 1,000 for the benefit unit, as well as amounts for aid-in-construction, principal and interest to be repaid.

Initially, 241 patrons elected to pay the \$ 19 monthly fee for the life of the bonds, and 19 patrons paid the initial charge of \$ 2,367. New users joining the system after December 31, 1991 are required to pay for the benefit unit and \$ 19 per month until the bonds were paid off.

In 1995, the District's Board of Directors adopted a resolution that decreased the monthly payment to \$ 17.

In 2007, the District paid off the remaining balance of the Water System Refunding Revenue Bonds, Series 1996. As a result, the affected patrons are no longer charged a monthly fee.

NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the county carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance for details of insurance.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2011 and 2010.

NOTE 6 – Concentration of Suppliers

The District acquires 100% of its water from the City of Topeka and the Tri-District facility. There are no other suppliers of water available for this district.

NOTE 7 – Investment in Tri-District

In 1979, and as amended in 1980, the District entered into a joint venture agreement with Rural Water District No. 3 of Douglas County, Kansas and Rural Water District No. 5 of Osage County, Kansas for the purposes of construction a water treatment facility (Tri-District Facility). The following represents the interests of the Districts in the treatment facility:

Rural Water District No. 3, Douglas County, KS	35.00%
Rural Water District No. 5, Osage County, KS	30.00%
Rural Water District No. 8, Shawnee County, KS	35.00%

The above Districts are responsible for the operating expenses, debt and improvements of the Tri-District Facility based on the above percentages.

During 1996, the district entered into a interlocal cooperation agreement for construction and financial of improvements to the Tri-District facility. The total cost of the project was \$ 2,000,000. The District's share was \$ 700,000 which was funded by the District issuing \$ 400,000 of Water System Revenue Bonds, Series 1997 and using available cash. The Series 1997 bonds were refunded with the Series 2001 bonds, which matured in 2006.

During 2002, additional improvements to the Tri-District facility were completed. The total cost of the project was approximately \$ 1,600,000. The agreement required the district to share in approximately 35% of the improvement costs. The District used available cash to fund the project.

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Investment in Tri-District (continued)

Under Governmental Accounting Standard No. 14 (GASB), the District has recorded their interest in the Tri-District Facility under the equity method of accounting. Under the equity method of accounting, all payments to the Tri-District Facility increase their investment. Net income of the Tri-District Facility increases their investment while a net loss reduces the investment. The following represents the unaudited statement of net assets and statement of revenue and expenses as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Statement of Net Assets		
Assets		
Cash and cash equivalents	\$ 162,060	\$ 108,697
Due from RWD #3	96,045	96,045
Property, plant, and equipment, net	4,645,999	4,941,177
Bond costs, net		
	<u>\$ 4,904,104</u>	<u>\$ 5,145,919</u>
Liabilities		
Bond Payable	\$ -	\$ -
Net Assets		
Rural Water District No. 3	1,989,847	2,074,482
Rural Water District No. 5	1,353,844	1,465,090
Rural Water District No. 8	<u>1,560,413</u>	<u>1,606,347</u>
	4,904,104	5,145,919
	<u>\$ 4,904,104</u>	<u>\$ 5,145,919</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Investment in Tri-District (continued)

The District has adjusted their investment to the above equity reported by the Tri-District. The Tri-District's financial statements have not been audited as of December 31, 2011 and 2010; as a result, the information recorded on the District's statement of net assets would change if there were adjustments made to the Tri-District's financial statements.

The following represents the statement of activities for the year ended December 31, 2011 and 2010:

Statement of Revenues and Expenses

	<u>2011</u>	<u>2010</u>
Water sales and fees	\$ 602,914	\$ 612,635
Operating expenses	<u>529,477</u>	<u>587,390</u>
Loss from operations	73,437	25,245
Interest income	<u>13</u>	<u>38</u>
Net Income (loss)	73,450	25,283
District's share	<u>35%</u>	<u>35%</u>
Gain (loss) in investment	<u>\$ 25,708</u>	<u>\$ 8,849</u>

The gain (loss) on investment is reported in the nonoperating section of the District's statement of revenues and expenses. The above is for the years ended December 31, 2011 and 2010.

The District purchased 169,736,000 gallons from the Tri-District Facility at a rate of \$ 1.25 per 1,000 gallons plus a monthly fixed fee of \$ 2,100

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – Defined Contribution Pension Plan

The District has established a defined contribution pension plan covering all of its employees. The plan is non-contributory for employees. The District contributes 10% of the employees' gross wages on a monthly basis to the plan. The Board of Directors has the authority to establish and amend benefit provisions. Pension expense for the years ended December 31, 2011 and 2010 was \$ 25,130 and \$ 22,758, respectively.

NOTE 9 - Leases

There were no significant leases in 2011 and 2010.

NOTE 10-Contracts

In 1979, the District entered into an agreement with the Tri-District Facility to purchase water. In 2011, the District purchased 169,736,000 at \$1.25 per 1,000 gallons plus a fixed monthly fee of \$2,100.

NOTE 11-Property, Plant, and Equipment

The following represents property, plant, and equipment of the District and does not include any assets of the Tri-District Facility:

	<u>2011</u>	<u>2010</u>
Meters	\$ 1,191,317	\$ 1,195,880
Distribution lines	3,110,907	3,110,907
Tanks	595,696	595,696
Land	33,300	33,300
Office building	88,852	88,852
City water tower	128,869	128,869
Office equipment	53,681	52,082
Other equipment	126,381	108,395
	<u>5,329,003</u>	<u>5,313,981</u>
Accumulated depreciation	<u>3,618,298</u>	<u>3,504,808</u>
Book value	<u>\$ 1,710,705</u>	<u>\$ 1,809,173</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11—Property, Plant, and Equipment (continued)

The following represents a rollforward of property, plant, and equipment as of December 31, 2011 and 2010:

	2010 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Meters	\$ 1,090,245	\$ 105,635		\$ 1,195,880
Distribution lines	3,107,227	3,680		3,110,907
Tanks	595,696			595,696
Land	33,300			33,300
Office building	88,852			88,852
City water tower	128,869			128,869
Office equipment	52,082			52,082
Other equipment	108,395			108,395
	<u>\$ 5,204,666</u>	<u>\$ 109,315</u>		<u>\$ 5,313,981</u>
	2011 Rollforward			Ending Balance
	Beginning Balance	Additions	Dispositions	
Meters	\$ 1,195,880		\$ 4,563	\$ 1,191,317
Distribution lines	3,110,907			3,110,907
Tanks	595,696			595,696
Land	33,300			33,300
Office building	88,852			88,852
City water tower	128,869			128,869
Office equipment	52,082	1,599		53,681
Other equipment	108,395	17,986		126,381
	<u>\$ 5,313,981</u>	<u>\$ 19,585</u>	<u>\$ 4,563</u>	<u>\$ 5,329,003</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11-Property, Plant, and Equipment (continued)

The following represents a rollforward of accumulated depreciation as of December 31, 2011 and 2010.

	Beginning Balance	2010 Rollforward		Ending Balance
		Additions	Dispositions	
Accumulated depreciation				
Meters	\$ (895,396)	\$ (19,304)	\$ -	\$ (914,700)
Distribution lines	(1,783,559)	(67,756)	-	(1,851,315)
Tanks	(357,405)	(21,749)	-	(379,154)
Office building	(76,592)	(1,792)	-	(78,384)
City water tower	(127,028)		-	(127,028)
Office equipment	(51,790)	(73)	-	(51,863)
Other equipment	(95,224)	(7,140)	-	(102,364)
	<u>\$ (3,386,994)</u>	<u>\$ (117,814)</u>	<u>\$ -</u>	<u>\$ (3,504,808)</u>
	Beginning Balance	2011 Rollforward		Ending Balance
		Additions	Dispositions	
Accumulated depreciation				
Meters	\$ (914,700)	\$ (19,076)	\$ -	\$ (933,776)
Distribution lines	(1,851,315)	(66,412)	-	(1,917,727)
Tanks	(379,154)	(21,749)	-	(400,903)
Office building	(78,384)	(1,801)	-	(80,185)
City water tower	(127,028)		-	(127,028)
Office equipment	(51,863)	(153)	-	(52,016)
Other equipment	(102,364)	(4,299)	-	(106,663)
	<u>\$ (3,504,808)</u>	<u>\$ (113,490)</u>	<u>\$ -</u>	<u>\$ (3,618,298)</u>

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Meters	Straight Line	10-20 years
Distribution lines	Straight Line	33-50 years
Tanks	Straight Line	15-40 years
Office building	Straight Line	5-40 years
Office equipment	Straight Line	5-10 years
Other equipment	Straight Line	5-10 years

NOTE 12 – Compensated Absences

The District has a paid time off policy program for employees, which includes vacation, sickness or other personal needs. Full-time employees with six year or less of service are eligible for two weeks of vacation. Full-time employees seven or more years of service are eligible for three weeks of vacation. Vacation time that is not used during the year is lost. Employees accrue .50 days of sick leave for every month of service. Accrued sick leave is not paid at termination. No accrued sick leave is included in these financial statements due to the immateriality of the amount.

NOTE 13 – Subsequent Events Review

Subsequent events for management's review have been evaluated through January 10, 2012. The date in the prior sentence is the date the financial statements were available to be issued.

Board of Directors
Rural Water District No. 8, Shawnee County, Kansas
Tecumseh, Kansas 66542

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDIT STANDARDS**

We have audited the basic financial statements of the business-type activities of Rural Water District No. 8, Shawnee County, Kansas (the District) as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated January 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

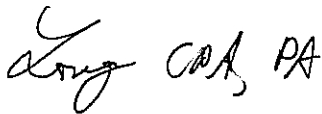
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Rural Water District No. 08, Shawnee County, Kansas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors, others within the organization, and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Long CPA, PA". The signature is stylized with a large, looping initial "L".

Long CPA, PA
A Professional Association
Certified Public Accountant

January 10, 2012

RURAL WATER DISTRICT No. 8
Shawnee County, Kansas

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011

Current Findings

None

Prior Findings

None

RURAL WATER DISTRICT NO. 8

Shawnee County, Kansas

SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS

As of December 31, 2011

Property Covered	Coverage	Expires
Commercial property:	90% Coinsurance	4/8/2012
Building and personal property	227,097	
Water towers and equipment	513,139	
General Liability:		4/8/2012
Aggregate Limit -		
products/completed operations	1,000,000	
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		4/8/2012
Liability insurance (per loss)	500,000	
Auto medical payments	1,000	
Uninsured motorist	500,000	
Underinsured motorist	500,000	
Workmen's compensation:		4/8/2012
Bodily injury by accident	500,000	
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		4/8/2012
Per loss	25,000	
Board members	175,000	
Inland Marine	90% Coinsurance	4/8/2011
Property in transit	35,200	
Pipe fittings, valves, supplies	30,000	
Additional debris removal	5,000	
Pollutant Cleanup and removal	10,000	
Ford tractor	4,200	
Ford mower	600	
Ford scraper	400	
Linebacker Coverage		4/8/2011
Each loss	1,000,000	
Aggregate	1,000,000	

The notes to the financial statements are an integral part of this statement.